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# **The Gulf Monarchies and Pacific Asia: Towards Interdependency?**

CHRISTOPHER M. DAVIDSON

## **1. INTRODUCTION**

A host of economic, diplomatic, cultural, and other highly pragmatic linkages seem to be making the long-predicted 'Asianization' of Asia a reality.

<sup>1</sup> As this chapter will demonstrate, the powerful and multidimensional connections that are being forged by the very eastern and western extremities of the continent are perhaps now one of the most visible indicators of this process. Given time, this will finally lead to the emergence of meaningful bilateral ties between non-Western poles of the international system involving states that up until recently had been considered as peripheral to the global economy and dependent on the advanced capitalist countries for their trade and investment (Ehteshami 2004: 133-134). Most notably, an important new relationship is developing between the six monarchies of the Persian Gulf—Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Qatar, Bahrain, and Oman—and the three most advanced economies of Pacific Asia—Japan, China, and South Korea. With little shared modern economic history, with enormous political and socio-economic disparities, and separated by great geographical distances, the rapidly tightening economic interdependence between the two regions is a recent phenomenon that deserves considerable attention. What began as a simple, late twentieth century marriage of convenience based on hydrocarbon imports and exports has now evolved into a comprehensive, long-term mutual commitment that will not only continue to capitalize on the Persian Gulf's rich energy resources and Pacific Asia's massive energy needs. But it will also seek to develop strong non-hydrocarbon bilateral trade, it will facilitate sizeable sovereign wealth investments in both directions, and it will provide lucrative opportunities for experienced Pacific Asia construction companies, their technologies, and—in China's case—its vast labour force.

Although this increasingly extensive relationship seems to have had little impact on the Persian Gulf's military security arrangements—which remain mostly with the United States, Britain, and France—and although few serious attempts have been made by either side to replace or balance these with new pan-Asian alliances, this may change soon. Meanwhile, there is compelling evidence that the two regions are seeking to strengthen their other non-economic ties. An abundance of state-level visits, often at much higher levels than with Western powers, and a considerable number of cooperative agreements, gifts, loans, and other incentives are undoubtedly binding these great trade partners ever closer. Moreover, with a number of future collaborations including 'hydrocarbon safekeeping', renewable energy projects,

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<sup>1</sup> See for example Funabashi 1993.

civilian nuclear power plants, and the building of a twenty-first century ‘Silk Road,’ the trajectory of interdependence will continue to accelerate. With a growing realization that the Pacific-Asian economies, particularly China, may continue to experience higher economic growth credit than the Western economies—

thus signifying a global shift in economic weight from the West to the East—the Eastwards reorientation of the Persian Gulf monarchies can only intensify.

Following a brief historical background of relations between the Persian Gulf and Pacific Asia, an examination of contemporary hydrocarbon and non-hydrocarbon trade links will then be made, before turning to the sizeable interlinking investments between the nine states involved and to the several examples of major construction and labour contracts in the Persian Gulf that have already been awarded to Pacific Asian companies. Finally, the efforts to boost diplomatic and other relations will be considered, followed by an analysis of the many recent efforts to explore innovative future avenues of economic and technical cooperation.

## **2. HISTORICAL BACKGROUND**

The Persian Gulf’s oil trade with the Pacific Asian economies began in the early 1950s, when Japanese oil companies were scouring the globe for resources to fuel Japan’s rapid post-war industrialization programme. Most of the Gulf sheikhdoms were off-limits to Japan as they remained part of Britain’s ‘Trucial System’—a series of nineteenth-century peace treaties between London and the various sheikhs that guaranteed British protection in exchange for exclusive political and economic relations (Onley 2007). Saudi Arabia, however, was the key exception, with Britain having formally recognized King Abdul-Aziz bin Saud’s independence in 1932 and being unable to prevent the US’s Standard Oil of California from beginning exploration the following year. In 1953, Japan was able to dispatch freely an economic delegation to Saudi Arabia, and the following year formal diplomatic relations began. By 1956, Japan’s Arabian Oil Company had secured a forty-three-year concession to explore and extract Saudi oil,<sup>2</sup> and in 1960, production commenced. The lucrative relationship was then quickly strengthened by the Saudi ruling family, with its first Minister of Defence visiting Tokyo in 1960, and with its third king visiting in 1971.

In parallel, non-hydrocarbon trade between the Persian Gulf and Japan was also beginning to flourish, although its origins were more circuitous. Dubai, as one of the Trucial States, had long been exploring inventive ways of circumventing Britain’s tight economic controls (Davidson 2008: 19), and in the 1950s and 1960s, the sheikhdom managed to position itself as the primary re-export hub for goods destined for India. Following the latter’s independence and the attempts of its first Prime Minister, Jawaharlal Nehru, to replicate the Soviet miracle by using the state to plan and protect the economy, a number of

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<sup>2</sup> The concession duly ended in early 2000.

restrictive practices were introduced that effectively prevented India-based merchants from meeting domestic demand for their products, especially fabrics. In particular, cotton from Japan was in great demand. Dubai played the role of an intermediary, its merchants carefully ordering the necessary materials well in advance so as to overcome the lengthy five-month shipping time from Japan (Buxani 2003: 109–10, 118; Davidson 2008: 70). By the late 1970s, Dubai's trade with Japan had expanded to include electrical goods, with the re-exporting of millions of Hitachi personal stereos to the subcontinent (Davidson 2008: 313), and by 1982 thousands of Japanese television sets were being distributed across India and the Persian Gulf (Buxani 2003: 117–19, 121; Davidson 2008: 71).

With Britain's granting of independence to Kuwait in 1961, and with its withdrawal from the Trucial States in 1971, Japan's opportunities for further oil concessions and more formal non-hydrocarbon trade expanded to include all the Gulf monarchies. Formal diplomatic relations were established with Kuwait in 1961, and in late 1971 Japan was one of the first countries to recognise the newly formed UAE federation. The following year relations were also established with Qatar, Bahrain and Oman. The Arabian Oil Company—by this stage 80 percent owned by Japan and 20 percent owned by Saudi Arabia and Kuwait—duly signed concessions in Kuwait in 1961 (CIA 2009), and the Japanese Oil Development Company (JODCO) took a stake in an international consortium to exploit UAE offshore oil in late 1972 (Abu Dhabi Marine Operating Company 2009).

Although China was also involved in some of the re-export trade in the Persian Gulf in the 1950s and 1960s, the volume was much lower than that of Japan and most of the activity took place in Qatar and Kuwait rather than Dubai (China, Ministry for Foreign Affairs 2009). With sizeable domestic hydrocarbon reserves and less momentum behind its industrialization programme, China's interest in an oil trade with the Persian Gulf was also much lower than Japan's. Moreover, during this period, China's open support for anti-imperialist, revolutionary movements stymied most opportunities for closer ties with the Gulf's ruling families (Yetiv and Lu 2007: 201), most of which were political beneficiaries of the Trucial System (Davidson 2005: 29–31).<sup>3</sup> Nonetheless, with an eye to the future, the ruler of Kuwait visited China in 1965 and diplomatic relations were established in 1971. By 1978, circumstances were already beginning to change, as the initiation of a series of Chinese economic and political reforms—the 'Four Modernizations'—that aimed to stimulate economic growth and support modernization (Evans 1995)<sup>4</sup> effectively led to

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<sup>3</sup> Peace treaties signed between Gulf ruling families and the British Empire in the nineteenth century effectively guaranteed the former's security from both foreign aggression and domestic insurgency.

<sup>4</sup> The four modernizations were in the fields of agriculture, industry, technology, and defence.

the downgrading of Marxist ideologies in China's external relations (Yetiv and Lu 2007: 201). The door having been opened, Oman immediately established diplomatic relations, while the UAE followed suit in 1984, and the following year Saudi Arabia held its first official meeting with China on Omani territory. Just days after the 1981 formation of the Gulf Cooperation Council—the loose organization that was to represent the joint interests of the Gulf monarchies—China had granted it recognition (Yetiv and Lu 2007: 202). Significantly, in 1983, China began to import crude oil from Oman as a temporary measure, in order to alleviate the problem of transporting its own oil from its northern provinces to refineries on the Yangtze River. By 1988, as Chinese demand for oil was accelerating rapidly in tandem with its increasing population and intensifying industrialization, the Omani arrangement was made permanent (Ghafour 2009: 87, 89). By 1990, China's presence had extended to all the Gulf monarchies and embassies being set up in Qatar in 1988, in Bahrain in 1989 and in Saudi Arabia in 1990 (China, Ministry for Foreign Affairs 2009).

Although far less proactive than Japan and China during this period, with its major oil companies not being established until the late 1970s and with most of its other trade links to the Persian Gulf also developing more recently, South Korea was carefully building the foundations of its present strong relationship during the 1960s and 1970s. For the most part, it established diplomatic relations in the wake of Japan but ahead of China, embassies being set up in Saudi Arabia in 1961, in Oman in 1974, in Qatar in 1974, in Bahrain in 1976, in Kuwait in 1979, and finally in the UAE in 1980 (South Korea, Ministry for Foreign Affairs 2009).

#### **4. THE HYDROCARBON TRADE**

The hydrocarbon trade undoubtedly remains the central pillar in the contemporary relationship between the Gulf monarchies and Pacific Asia, and could now be worth as much as US\$200 billion per year. At present, the former produces a combined total of about 16.6 billion barrels of crude oil per day, which is about 19 percent of the global total. The bulk of production takes place in Saudi Arabia, the UAE and Kuwait. The region also produces about 232 billion cubic metres of natural gas per year, which is about 8 percent of the global total. The bulk of production takes place in Qatar, Saudi Arabia and the UAE. More importantly perhaps, the Gulf monarchies account for 37 percent of all known crude oil reserves and 25 percent of all known natural gas reserves (CIA 2009: 2007 and 2008 estimates, author's calculations for totals). Saudi Arabia alone accounts for 25 percent of global oil reserves (BP 2008) and Qatar 15 percent of global gas reserves (US Government 2009).

At the other extreme, Japan's current hydrocarbon consumption is 5 million barrels of oil per day, all of which it has to import, and 100.3 billion

cubic metres of gas per year, 95 percent of which it has to import. China's current consumption is 7.9 million barrels of oil per day, 58 percent of which it has to import, and 70.5 billion cubic metres of gas per year, 5 percent of which it has to import. South Korea's current consumption is 2.1 million barrels of oil per day, all of which it has to import, and 37 billion cubic metres of gas per year, 93 percent of which it has to import. Respectively, Japan and China have the fourth and third greatest oil consumption needs in the world, while South Korea has now also entered the top ten. Japan has the fifth greatest gas consumption needs in the world, while China and South Korea have now moved into the top twenty (CIA 2009: 2006–8 estimates, author's calculations for totals) and are likely to catch Japan in the near future. According to the Organization of the Petroleum Exporting Countries (OPEC), although Japan's demand for oil is likely to fall by 15 percent by 2030, China, South Korea and other Pacific Asia economies are likely to make up 80 percent of net oil demand growth over the same period (*The National*, 5 August 2009).

Specifically, Japan currently imports about 1.3 million barrels of oil per day from Saudi Arabia, which is over 31 percent of its total oil imports and worth close to \$33 billion per year for Saudi Arabia (Japan, Ministry for Foreign Affairs 2009). This now makes Saudi Arabia the fifth largest trading partner of Japan, while Japan is its second largest trading partner (*Saudi Gazette*, 22 July 2009). In close second place, the UAE now exports 800,000 barrels of oil per day to Japan (*The National*, 26 June 2009), with total oil and gas exports from Abu Dhabi—the most resource-rich of the UAE's seven constituent emirates—now worth over \$47 billion (Japan, Ministry for Foreign Affairs 2009). Japan's hydrocarbon trade with the other Persian Gulf monarchies is much less, but still noteworthy; its annual imports from Qatar—most of which is gas amounts to \$17 billion, its imports from Kuwait—most of which is oil amounts to \$15 billion, and its imports from Oman and Bahrain being \$2.6 billion and \$0.4 billion respectively (Japan, Ministry for Foreign Affairs 2009).

China's total hydrocarbon trade with the Gulf monarchies is substantially less than Japan's, mainly due to its domestic gas reserves; nonetheless its oil imports have been rising sharply, with \$1.5 of imports in 1991, \$20 billion in 2004, and nearly \$33.8 billion in 2005 (Ghafour 2009: 83–4). Unsurprisingly, during the latter part of this period, China's Tenth Five-Year Plan (2001–5) contained its government's first public acknowledgement that overseas oil supplies needed to be secured if China were to enjoy continued economic growth and modernization (Yetiv and Lu 2007: 199). In the next few years China's imports are likely to double again, with one Chinese official having earlier stated that 'we need to find oil fast' (*International Herald Tribune*, 2 October 2006) and another commentator recently explaining that 'with the huge

oil and gas imports predicted for the next decade and beyond, China is compelled to turn to the Persian Gulf' (Ghafour 2009: 82–3). Certainly, the International Energy Agency (IEA) predicts that China's imports will grow to over 11 million barrels per day by 2030, more than half of which will have to be sourced from the Persian Gulf (Ghafour 2009: 82).

As with Japan, Saudi Arabia is currently China's greatest supplier of oil, with about 500,000 barrels of oil per day—or 30 percent of China's total oil imports (Ghafour 2009: 83)—being shipped by Aramco to the China Petroleum and Chemical Corporation (Sinopec). In second place with its hydrocarbon exports, is once again the UAE's Abu Dhabi, with annual oil exports to China having risen from \$3.5 billion to \$4.5 billion over the past five years. Oman, courtesy of its aforementioned twenty-five-year history of oil exports to China, still remains a significant supplier, its oil trade with Sinopec having risen from \$1.5 billion in 2002 to \$4.4 billion in recent years. Kuwait, Qatar and Bahrain's hydrocarbon trade with China has been more modest, but again the trajectory is impressive; Kuwait's supply of 200,000 barrels per day—currently worth \$700 million—being likely to double in the next few years, and Qatar's gas exports to China having risen in value from under \$100 million in 1999 to nearly \$1 billion today (China, Ministry for Foreign Affairs 2009).

For South Korea, the import pattern is similar to its larger neighbours, although, much like Japan, it requires from the Persian Gulf substantial imports of both oil and gas, given its lack of domestic gas reserves. Saudi Arabia is its largest trade partner, supplying about 770,000 barrels of oil per day as part of an annual hydrocarbon trade worth \$21 billion. The UAE is the second largest trade partner, supplying about 430,000 barrels of oil per day as part of an annual hydrocarbon trade worth \$13 billion (South Korea, Ministry for Foreign Affairs 2009). This makes South Korea the second largest importer of Abu Dhabi's oil after Japan (*The National*, 5 August 2009). Kuwait's total oil and gas exports to South Korea are also sizeable—worth \$8.1 billion, while Qatar's are worth \$7 billion—almost exclusively gas exports—Oman's are worth \$5.1 billion and Bahrain's \$0.3 billion (South Korea, Ministry for Foreign Affairs 2009).

## **5. THE NON-HYDROCARBON TRADE**

Non-hydrocarbon trade between the Gulf monarchies and Pacific Asia is on a much smaller scale than oil and gas. Nonetheless, as demonstrated, there has been an historical precedent for the importing of certain goods from Pacific Asia into the Persian Gulf, especially textiles and electrical goods, and as the latter region's per capita wealth accelerated during the oil era, the demand for such imports has continued to increase, along with new demands for cars, machinery, building materials and many other products associated with the region's oil and construction booms. In total, such imports from Japan, China

and South Korea could be worth as much as \$32 billion per year.<sup>5</sup> Importantly, there is no longer a complete imbalance of non-hydrocarbon trade between the two regions, as some of the export-oriented industries that have been established in the Gulf monarchies—mostly in an attempt to diversify oil-dependent economies—are now among the world’s leading producers of metals and plastics. Their export capacity continues to increase, with most of their future surpluses being earmarked for their Pacific Asian customers.

Japan’s greatest non-hydrocarbon trade partner in the region is the UAE, as a function of historic ties to Dubai’s entrepôt trade, Abu Dhabi’s commitment to building up heavy, non-hydrocarbon-related industries (Davidson 2008: 70–1; 2009: 72–3), and the UAE’s high per capita wealth which is now in excess of \$40,000 (CIA 2009: 2008 estimate). Their total non-hydrocarbon trade is now over \$11 billion per year (Japan, Ministry for Foreign Affairs 2009). Japan’s second largest non-hydrocarbon trade partner in the region is Saudi Arabia, the two countries having begun to sign economic and technical cooperation agreements as early as 1975. Presently, their non-hydrocarbon trade has mushroomed and stands at over \$5 billion, most of which is made up of Saudi imports of Japanese cars, machinery and consumer durables, but consisting also of Japanese imports of Saudi metals (Japan, Ministry for Foreign Affairs 2009). Japan’s non-hydrocarbon trade with Kuwait, Qatar and Oman is presently about \$2 billion, \$1.8 billion and \$1.7 billion respectively, most of which, again, is made up of Japanese exports of cars, machinery and consumer durables. Although Bahrain remains Japan’s least significant trading partner in the Persian Gulf, it is noteworthy that their non-hydrocarbon trade has increased dramatically from \$700 million in 2007 (Japan, Ministry for Foreign Affairs 2009) to nearly \$1.3 billion today, and is expected to increase by a further 20 percent over the following year. Overall, Japanese non-hydrocarbon trade with the Gulf monarchies is set to increase even further as negotiations over a free trade agreement (FTA) between Japan and the six monarchies are currently taking place, having commenced in 2006.

China’s greatest non-hydrocarbon trade partner in the Persian Gulf has for many years been Saudi Arabia, a memorandum of understanding on bilateral trade having been signed in 1988—as described, two years before China had even granted diplomatic recognition to Saudi Arabia. In 1992, a bilateral trade conference was staged and in 1996, under the auspices of a GCC–China consultative mechanism, annual trade meetings began between the two countries, held alternately in Riyadh and Beijing (Yetiv and Lu 2007: 202). Today, it is estimated that their total annual non-hydrocarbon trade is worth \$1.7 billion, mostly made up of Saudi imports of Chinese textiles and

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<sup>5</sup> Author’s calculations based on subsequently listed country totals.



machinery (China, Ministry for Foreign Affairs 2009), making Saudi Arabia China's tenth-largest international export destination (Ghafour 2009: 87). The UAE is presently China's second largest non-hydrocarbon trade partner in the Persian Gulf, total trade being estimated at \$500 million, again primarily made up of imports of Chinese textiles and machinery (China, Ministry for Foreign Affairs 2009). In the near future it is likely that China's trade with the UAE will increase massively, and perhaps will soon overtake Japan's non-hydrocarbon trade with that state. Most of this growth is expected to be a result of Dubai's strengthening relationship with China, Dubai Ports World stating in 2008 that China was already Dubai's second largest trade partner after Iran (*Arabian Business*, 31 March 2009). China's non-hydrocarbon trade with the other Persian Gulf monarchies is also growing; annual trade with Kuwait, Oman, Bahrain and Qatar being worth \$260 million, \$60 million, \$60 million and \$50 million respectively. These relationships have been facilitated by several agreements similar to those made by China with Saudi Arabia and the UAE.

As with Japan, China intends to increase its non-hydrocarbon trade with the Persian Gulf even further by achieving an FTA with all six of the monarchies in the near future. These FTA negotiations began in 2004, following a visit by a GCC delegation to China (Yetiv and Lu 2007: 206). Subsequent FTA negotiations were held in 2005 and 2006, by which stage agreements had been reached on tariff reductions. Although the talks have since stalled due to China's unwillingness to lift certain import restrictions on a number of non-hydrocarbon goods from the Persian Gulf, in early 2009, the concept of an FTA was reinvigorated by the president of China, and in summer 2009, the GCC reciprocated China's sentiments by publishing a White Paper entitled 'Economic relations between GCC member states and the People's Republic of China', which similarly urged the swift conclusion of FTA negotiations (*China Daily*, 30 January 2004; *People's Daily*, 12 February 2009; Gulf Cooperation Council Secretariat 2009). More recently, the proposed FTA seems to have gathered further pace.

South Korea's non-hydrocarbon trade with the Persian Gulf is more modest, although as with Japan and China, its relationship is strengthening. The Persian Gulf monarchies having collectively become South Korea's second largest export destination after China (*Zawya Dow Jones*, 8 March 2009), most of the trade being made up of cars, rubber parts and textiles. Individually, South Korea's non-hydrocarbon trade with Saudi Arabia is about \$3 billion, the UAE \$2.9 billion, Qatar \$800 million, Kuwait \$700 million, Oman \$300 million and Bahrain \$100 million. South Korea has not yet advanced as far as Japan and China with a Persian Gulf FTA; however negotiations did begin in summer 2008, a second round being held in spring 2009 (*Kuwait Times*, 8 March 2009), and they have continued since.

## 6. INVESTMENTS AND JOINT VENTURES

Alongside the booming hydrocarbon and non-hydrocarbon trades, the relationship between the Gulf monarchies and Pacific Asia is being greatly enhanced by a substantial flow of investments between the two regions. Significantly, these investments are being made in both directions and at all levels, and they include massive sovereign wealth investments. Although the majority are still connected to the oil and gas sectors, there is strong evidence that an increasingly diverse range of non-hydrocarbon joint ventures is also being established. In the short term, these opportunities are providing the Gulf monarchies with a realistic alternative to the mature Western economies for their overseas investments. Such an alternative was viewed as being particularly necessary following the 11 September, 2001, attacks, after which many Western governments and companies did little to disguise their distrust of Gulf sovereign wealth funds, many arguing that the funds were not merely commercial and that power politics could be involved.

Japan is presently the largest foreign investor in Saudi Arabia, with over \$11 billion of active investments being distributed among twenty-four different projects, including sixteen industrial projects and eight service-sector projects (*Saudi Gazette*, 22 July 2009). In the other direction, Saudi Arabia's Aramco now holds a 15 percent stake in Japan's fifth largest oil company, Showa Shell Sekiyu. Additionally, in summer 2009, the two countries entered into a \$1 billion joint venture, when the Saudi Basic Industries Corporation (SABIC) and Japan's Mitsubishi Rayon agreed to build an acrylics factory in Saudi Arabia, Mitsubishi holding the majority stake. In the UAE, Abu Dhabi's third largest sovereign wealth fund, the International Petroleum Investment Company (IPIC), has recently sought a \$5 billion package from Japan's Mitsubishi UFJ Financial Group and the Sumitomo Mitsui Banking Corporation. This in turn will allow these Japanese banks to have an interest in some of IPIC's overseas investments (Associated Press, 2 August 2009). In the other direction, IPIC has now taken a 20 percent stake in Japan's Cosmo Oil Company, which continues to hold a major Abu Dhabi offshore oil concession, thus strengthening further Japan-UAE interdependence.

In early 2005, the Chinese Ministry for Commerce revealed that Chinese investments in the Gulf monarchies had already reached \$5 billion, while Gulf investments in China totalled \$700 million (Ghafour 2009: 87). With a flurry of further investments and joint ventures since that announcement, these figures have since mushroomed, and will soon overtake even Japan's interests in the region. In particular, China has sought investments to help build up its oil-refining industries, in which the Persian Gulf economies have sought to have a dominant presence (Yetiv and Lu 2007: 205). At present China's greatest investment partner from the Persian Gulf is Kuwait, a relationship which

strengthened greatly following the setting up of a \$9 billion joint venture between the Kuwait Petroleum Corporation and Sinopec in 2005 (Associated Press, 26 June 2009). In 2006, this deal was followed by the Kuwait Investment Authority (KIA) buying over \$700 million in shares in the Industrial and Commercial Bank of China, thereby making Kuwait one of the biggest investors in one of China's first major public offerings. China may soon become heavily involved in Kuwaiti projects, Sinopec currently having a sizeable stake in an international consortium that is bidding for an \$8 billion infrastructural programme (Ghafour 2009: 89). The most innovative aspect of the investments between the two countries has been the establishment of the Kuwait–China Investment Company (KCIC) in 2005. Set up by the Kuwait government, the KCIC is 15 percent owned by KIA and has a capital base of about \$350 million, about half of which is held in cash (*Financial Times*, 10 July 2009).

As well as Kuwait, China is also heavily involved with Saudi Arabia, Aramco having taken a 25 percent stake in a major joint venture with Sinopec in 2001. In the near future another joint venture between the two companies may take place, but this time with Aramco taking the majority stake. This could lead to the building of the largest oil refinery in China, and may require as much as \$6 billion to complete. Similarly, SABIC has already helped to initiate three petrochemicals projects in China as part of its 'China Plan', which aims to facilitate mutual investments between the two countries, support China's economic development and satisfy its increasing demand as one of its premier suppliers (Yetiv and Lu 2007: 207–8). In the other direction, Sinopec has recently embarked on yet another joint venture with Aramco, taking an 80 percent, \$300 million stake in a new oil and gas exploration company in Saudi Arabia (Ghafour 2009: 87–8). Elsewhere in the Persian Gulf, Qatar has recently followed Kuwait's lead and has signalled its intent to purchase \$200 million in shares in the Industrial and Commercial Bank of China (Ghafour 2009: 87). And in summer 2009, it was announced that Qatar Petroleum would enter into a joint venture with PetroChina worth \$12 billion. The UAE, and more specifically Dubai, is also investing in China, with its government-owned Dubai Ports World parastatal now operating seven terminals in China and three of them in Hong Kong.

## **7. CONSTRUCTION AND LABOUR CONTRACTS**

For some years, construction and labour companies in the Pacific Asia countries have been winning contracts in the Persian Gulf, the China National Petroleum Company (CNPC) having supplied labourers for projects in Kuwait as early as 1983 (Ghafour 2009: 87–9; Yetiv and Lu 2007: 203), and a number of other Chinese companies having supplied labourers for tourism and real-estate projects in Dubai for several years. However, very recently a large number of

major contracts have been awarded to Japanese, Chinese and South Korean companies both to build and supply labour for multi-billion dollar projects in the Persian Gulf. Significantly, in many cases these companies have competed successfully against Arab and Western companies that have had a much longer history of winning contracts in the region and have usually sourced their labour from South Asia. Undoubtedly, these new contracts serve to solidify further the economic interdependence between the two regions while also taking advantage of the Pacific Asian companies' experience, technologies and access to abundant labour.

Of the three principal Pacific Asian countries, it has been South Korea that has made the greatest inroads into the Gulf monarchies' construction sector. In the UAE, three out of five new gas facilities in Abu Dhabi's Habshan region, operated by Abu Dhabi Gas Industries (GASCO), are being constructed by South Korean companies. Hyundai Engineering and Construction, GS Engineering and Hyundai Heavy Industries won their contracts in 2009, totalling \$4.9 billion. Remarkably, Hyundai Engineering and Construction is already believed to be working on nine other projects in the UAE and has recently completed the construction of new gas processing facilities in Saudi Arabia's Khurais field. Elsewhere in Saudi Arabia, the company won a \$1.9 billion contract in late 2008 to build further gas processing facilities in the Karan field, on behalf of Aramco. And three other major South Korean companies won a combined \$2.8 billion contract to build a new refinery and petrochemicals plant in Saudi Arabia (*Korea Herald*, 17 July 2009).

#### **8. DIPLOMACY AND SECURITY**

Surprisingly, for many observers, there is still no obvious security dimension to the increasingly interdependent relationship between the Gulf monarchies and Pacific Asia. All the former are widely considered to be vulnerable, given their rich energy resources, small national populations, and close proximity to major conflicts and other potential threats. Moreover, their reliance on a Western security umbrella is undoubtedly problematic, given the strained relations between the Arab world and the US, not least over the Arab-Israeli conflict, but also following the 2001 invasion of Afghanistan and the 2003 invasion of Iraq. Equally it would seem to make sense for the Pacific Asian countries to seek a more active role in the security arrangements and defensive shields of their primary energy suppliers.

Part of the explanation is that the Gulf monarchies do not yet see a reliable alternative to the West. For all its shortcomings, it was a Western-led alliance that liberated Kuwait in 1991, and it is the Western presence that has been credited with safeguarding the Gulf from Iraqi or Iranian belligerence in the past. As such, with a few exceptions, notably a modest arms trade with

China (Nuclear Threat Initiative 2007), almost all of the Gulf monarchies' arms imports have been sourced from western manufacturers. Moreover, although there has been an appreciable increase in China's naval presence in the region—in part due to anti-pirate operations in the nearby Gulf of Aden—there is little projection of Pacific Asian military power in the Persian Gulf itself. Instead there remain a number of well-entrenched US military bases in Kuwait, Bahrain and Qatar, a British base in Oman and a new French base was even opened in Abu Dhabi in spring 2009. Some commentators have argued that the same lack of enthusiasm for a security relationship between the two regions applies in reverse: although it is not ideal that the US dominates the Persian Gulf, the Pacific Asian countries nonetheless see little alternative to Western-provided security, given that the thousands of miles of shipping lanes between themselves and their hydrocarbon suppliers would be difficult and expensive to protect. Thus far, it has remained more practical and cost effective to rely on experienced Western navies, which have already invested in a multi-billion capability for this purpose and enjoy access to a network of maritime bases in allied states (Yetiv and Lu 2007: 200–1).

Another component of the explanation is simply lingering distrust, despite all the aforementioned economic linkages and converging histories. This is not so much related to Japan or South Korea, which are effectively neutral military powers, but rather to China, which has repeatedly created difficulties for a stronger security relationship. For many of the older generation of Omanis, including their present ruler, it is still difficult to forget that China helped to sponsor the rebellion in Oman's Dhofar province in the 1960s and 1970s, while Britain played a key role in suppressing the rebels (Calabrese 1990: 867; Ghafour 2009: 89, 91). In the mid-1980s, it appeared that China's role in the region would increase, as Saudi Arabia began to buy Chinese CSS-2 East Wind missiles. However, Saudi Arabia was unwilling to go further and purchase Chinese intercontinental ballistic missiles, preferring to keep sourcing its ordinance from the US. Most seriously, in 1990, China was unwilling to condemn openly Iraq's invasion of Kuwait, and following Kuwait's purchase of nearly \$300 million of Chinese howitzers in the mid-1990s, a Kuwaiti official later claimed that his government had been pressured into the deal as China was threatening to withdraw its support for future UN sanctions against Iraq (Ghafour 2009: 88–9, 91; Yetiv and Lu 2007: 211). Tellingly, China's Ministry for Foreign Affairs is currently attempting to rewrite this troubled period of history with Kuwait and its neighbours by stating that 'during the Gulf crisis in 1990, China resolutely opposed Iraq's invasion and occupation of Kuwait and demanded that Iraq should withdraw its troops from Kuwait and restore and respect the independence, sovereignty and territorial integrity of Kuwait ... both countries share identical or similar views on many major international and

regional issues, constantly rendering sympathy and support to each other' (China, Ministry for Foreign Affairs 2009).

Regardless of the various explanations, the present reality is that the Gulf monarchies and their great Pacific Asian trade and investment partners do not yet have a meaningful security relationship. However, this is in no way jeopardizing their current and future closeness, with both clusters of countries now going to considerable lengths to improve other, non-economic aspects of their interdependency. Indeed, there now appears to be a tacit understanding from both parties that their relationship simply need not contain a military security component, at least for the time being. High-level diplomatic visits have, in particular, become central to the strategies of both regions. While economic and trade matters are certainly discussed at these events, they are, nonetheless, also perceived as valuable opportunities for heads of state and their ministers to meet their counterparts and consider a range of other matters. Often substantial gifts or interest-free loans are granted during these meetings, clearly in an effort to build more sturdy political and cultural understandings, and they undoubtedly generate further goodwill. In recent years the frequency of these visits has greatly intensified, and the seniority of the visitors—especially from the Gulf monarchies travelling to Pacific Asia—is significantly high, and likely to now be higher on average than the seniority of visitors dispatched to Western capitals.

## **9. FUTURE INITIATIVES AND COLLABORATIONS**

With the noted exception of military security arrangements, the relationship between the Gulf monarchies and the three principal Pacific Asian economies will continue to strengthen and broaden for the foreseeable future, provided that the former remain able to balance their existing relationships with the Western powers and Pacific Asia, especially China (Moran and Russell 2008). Thus far, such geopolitical competition would seem to have been avoided, given the primary emphasis on bilateral economic linkages, which for the most part have had little direct impact on the Gulf monarchies' dealings with the West. Indeed, as this chapter has demonstrated, the hydrocarbon and non-hydrocarbon trade between the two regions has been rapidly rising in volume and value, and is projected to continue to do so. Similarly, it has been shown that the flow of bilateral investments between the two regions continue to rise, and a substantial number of construction and labour contracts are being signed with ever greater frequency. These trajectories are all being enhanced by improving non-economic ties, especially at the diplomatic level, and, as discussed, it is likely that these linkages will grow even tighter in the near future. Furthermore, the relationship will also be enhanced by several new initiatives and collaborations between the two regions, all of which augment existing economic bonds, while

some have implications for future non-military security arrangements, and others are highly symbolic of this twenty-first-century partnership.

In 2010, Abu Dhabi's national oil company began using one of Nippon's existing reserve bases in Kagoshima in southern Japan as a crude oil storage depot. This agreement has already provided the UAE with an alternative outlet for its crude oil sales, not only to Japan and its neighbours, but the entire East Asia region. Such an outlet would prove vital if the Strait of Hormuz—the entrance to the Persian Gulf—was closed in the event of an emergency. From Japan's perspective the agreement is equally beneficial, as it provides Japan with direct access and a pre-emptive right to purchase crude oil in such an emergency. Tellingly, ADNOC's spokesperson stated that the arrangement would 'contribute to enhancing Abu Dhabi's relationship with Asian markets generally and Japan particularly, and guarantee the flow of crude oil supplies to these markets in emergencies' (*The National*, 26 June 2009).

The future energy sector is another likely area of collaboration, with countries from both regions actively seeking to set up solar and nuclear joint ventures. Japan's Showa Shell Sekiyu announced that it was considering operating solar power plants in Saudi Arabia in cooperation with Aramco, which, as described, is now one of its principal shareholders. Showa intends to build small pilot plants in Saudi Arabia to test its technologies, and should these prove successful then a joint venture with Aramco may be set up (Associated Press, 25 June 2009). With the UAE committed to a path of diversifying its energy sources and building up a civilian nuclear programme based on imported technologies from the US, its government has repeatedly turned to Japan and South Korea for advice and assistance. In early 2009, the UAE signed a nuclear cooperation memorandum of understanding with Japan, and in summer 2009, the UAE signed a similar agreement with South Korea. A twenty-strong UAE delegation was promptly sent to South Korea—at the invitation of the Korea Electric Power Corporation (KEPCO)—to survey its nuclear facilities, and in late 2009, a KEPCO-led consortium outbid two other international consortia to win a \$20 billion contract to construct the UAE's first three nuclear plants.

Perhaps most emblematic of the many new developments that will strengthen the link between Pacific Asia and the Gulf monarchies in the near future is China's attempt to reconstruct the old Karakoram Highway. This will effectively connect China to the Persian Gulf by a land route that follows the same path as the ancient Silk Road. To do so, China will build the world's highest altitude motorway in cooperation with the Pakistani government, which will not only involve a massive investment and working in difficult terrain, but will even require the pacifying of local tribes in remote areas beyond the control of the Beijing and Islamabad governments (*The National*, 6 August 2009). On completion, this new highway will connect with deep-water ports in Pakistan,

most notably the port at Gwadar, in Baluchistan, which has direct access to the Gulf of Oman and lies just 250 miles from the entrance to the Persian Gulf. China has already invested \$200 million in Gwadar, the port having first opened in 2005 with three berths; China intends it to expand soon to ten berths with a new bulk-cargo terminal (Ghafour 2009: 83).

## **10. CONCLUSION**

By the end of the twentieth century, with rapidly accelerating demand from increasingly resource-scarce China and South Korea, and sustained demand from Japan, the Pacific Asian economies had all become heavily dependent on oil and gas imports, with most being sourced from the Persian Gulf monarchies. Now, more than ever, this massive and lucrative hydrocarbon trade represents the central pillar in the strengthening relationship between the two regions and, as demonstrated, is presently worth hundreds of billions of dollars per annum. In the near future it is likely this trade will amount to trillions of dollars per annum. Significantly, few efforts are being made by either side to disguise their increasing dependency on the other, with the bulk of future Gulf hydrocarbon exporting capacity being earmarked for Pacific Asian buyers. This contrasts markedly with other hydrocarbon importing economies, especially in the West, where most often an emphasis is placed on diversifying supplies wherever possible. Although on a much smaller scale than the oil and gas trade, it is also important to note how rapidly the non-hydrocarbon trade between the two regions is also growing. In something of a twenty-first century reincarnation of the ancient Silk Road, the Gulf monarchies are importing ever-increasing quantities of textiles, machinery, automobiles, and electrical products from the Pacific Asian economies, while in the other direction, the Gulf states have augmented their hydrocarbon exports by selling increasing volumes of metals, plastics, and petrochemicals. With a host of new initiatives from all of the governments and business communities concerned, together with considerable relaxations on visa requirements and other erstwhile restrictions, it is becoming much easier than before for merchants from both regions to travel and take their business from one side of Asia to the other.

In parallel to these intensifying trade links, the relationship between the Gulf monarchies and the Pacific Asian economies is being strengthened even further by a massive flow of investments. These investments are in both directions and at all levels, with most being managed by giant government-backed sovereign wealth funds. Although the bulk of these investments are still associated with the hydrocarbon industry, there are, however, strong signs that an increasingly diverse range of non-hydrocarbon joint ventures are also being pursued. Such opportunities are finally providing the Gulf monarchies with a



realistic and more hospitable alternative to the more mature Western economies for their overseas investments and interests.

Although Pacific Asian construction companies have been winning contracts in the Persian Gulf for some time, it is significant that over the last few years there has been a marked increase in their success. Many of the most recent contracts have been to both build and supply the labour for multi-billion dollar developments and, significantly, in many cases the successful Japanese, Chinese, and South Korean companies have had to compete against Arab and Western companies. Even though Chinese and other Pacific Asian labour often comes at a slightly higher cost than labour from India, Pakistan, or Bangladesh, it is increasingly viewed as less problematic by the governments in the Persian Gulf monarchies, as the presence of thousands of non-Muslim and non-Arabic speaking Pacific Asian labourers is not thought to pose a significant security threat to these states.

Despite these intensifying connections between the two regions, a meaningful security arrangement has yet to develop, despite the obvious advantages to both the Gulf monarchies—which have to balance their reliance on Western support with often contradictory domestic sentiments; and the Pacific Asian economies—which need to secure their energy supply routes. If anything, the Western powers have increased their military presence in the Persian Gulf in recent years, with new bases being established and ever-increasing sales of sophisticated weaponry to their most demanding customers. In part, this has been due to a history of distrust, with the Gulf monarchies preferring to seek support from the same reliable protectors that preserved their integrity during the Iran-Iraq War of the 1980s and orchestrated the liberation of Kuwait in 1991. Moreover, there is undoubtedly a feeling on both sides that their increasing economic interdependency does not yet require a security dimension as long as the Western powers continue to guarantee—and thereby subsidize—the safety of their shipping routes and supply lines. However, there are a number of recent indicators that the Pacific Asian states, especially China and to a lesser extent Japan, are beginning to assume a more active role in the broader region's security environment.

Without a strong security component to their relationship, the Gulf monarchies and the Pacific Asian economies have all gone to considerable lengths to shore up a number of other, non-economic aspects of their interdependency. In particular, there has been a strong focus on aid-giving, grants, and other donations, even if only for symbolic purposes. Moreover, there has been a marked increase in the frequency and seniority of diplomatic visits. While economic and trade matters remain at the heart of these meetings, a broad range of other issues are discussed and strong efforts are being made to generate the most effective cultural and educational linkages. Furthermore, the

increasingly interdependent and multi-dimensional relationship between the two regions is also being enhanced by several new initiatives and collaborations which will take shape over the next few years. These include innovative hydrocarbon storage projects, investments in renewable energies, further improvements to pan-Asian physical trade infrastructure, and the construction and technology transfer of civilian nuclear power from Pacific Asia to the Gulf monarchies. All of these developments will augment existing economic bonds, while some may even have an impact on future security arrangements.

The intensifying connection between the two regions also has several broader implications. The lack of significant military collaboration has certainly allowed the US and other Western powers to remain in their role as the ultimate protectors of the Persian Gulf and the guarantors of the international oil industry's most strategic shipping lanes. This has kept to a minimum any tension between the US and China, with the latter regarded by most observers as being the most militaristic of the Pacific Asia states. Given time this will likely change, as the Pacific Asia states gradually seek greater influence over their primary energy suppliers. Moreover, the many other linkages between the Gulf monarchies and Pacific Asia described in this chapter, including the various economic and diplomatic ties, and perhaps especially the raft of new initiatives and collaborations, will undoubtedly prompt the US and other powers to pay more attention to this new pan-Asian relationship. Such increased attention, if mishandled and too heavy-handed, may in turn reduce trust between the Gulf monarchies and their Western allies and partners, thus providing a fresh wave of opportunities for Pacific Asian governments and companies to win lucrative contracts and thus increase their influence even further.

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